

OPEN MEETING ITEM

COMMISSIONERS
SUSAN BITTER SMITH - Chairman
BOB STUMP
BOB BURNS
DOUG LITTLE
TOM FORESE



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ARIZONA CORPORATION COMMISSION

DATE: JANUARY 14, 2015

DOCKET NO.: E-01773A-12-0305

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ORIGINAL

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Teena Jibilian. The recommendation has been filed in the form of an Order on:

ARIZONA ELECTRIC POWER COOPERATIVE, INC. (RATES (ECAR SURCHARGE MECHANISM))

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

JANUARY 23, 2015

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

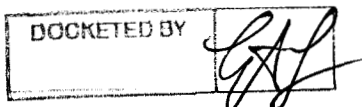
FEBRUARY 3, 2015 and JANUARY 4, 2015

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

Arizona Corporation Commission

DOCKETED

JAN 14 2015



JODI JERICH
EXECUTIVE DIRECTOR

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

SUSAN BITTER SMITH - Chairman
BOB STUMP
BOB BURNS
DOUG LITTLE
TOM FORESE

IN THE MATTER OF THE APPLICATION OF
ARIZONA ELECTRIC POWER COOPERATIVE,
INC. FOR A HEARING TO DETERMINE THE
FAIR VALUE OF ITS PROPERTY FOR
RATEMAKING PURPOSES, TO FIX A JUST AND
REASONABLE RETURN THEREON AND TO
APPROVE RATES DESIGNED TO DEVELOP
SUCH RETURN.

DOCKET NO. E-01773A-12-0305

DECISION NO. _____

ORDER

Open Meeting
February 3 and 4, 2015
Phoenix, Arizona

BY THE COMMISSION:

* * * * *

Having considered the entire record herein and being fully advised in the premises, the
Commission finds, concludes, and orders that:

FINDINGS OF FACT

Procedural History

1. On July 5, 2012, Arizona Electric Power Cooperative, Inc. ("AEPCO") filed with the
Arizona Corporation Commission ("Commission") the above captioned application, requesting a rate
decrease, continuation of its Purchased Power and Fuel Adjustor Clause ("PPFAC"), with
modifications, and approval of revised depreciation rates.

2. On October 25, 2013, the Commission issued Decision No. 74173. Among other
things, Decision No. 74173 ordered the record in this case to be held open until April 30, 2014, for
the limited purpose of allowing AEPCO to file for Commission approval, if it so chose, after
collaboration with the Commission's Utilities Division ("Staff"), a proposed Environmental

1 Compliance Adjustment Rider ("ECAR") and plan of administration fully addressing the technical
2 points raised by Staff in the rate proceeding.

3 3. On April 30, 2014, AEPCO filed in this docket an Application for Approval of the
4 ECAR Plan of Administration and Tariff ("ECAR Application").

5 4. Due to the possibility of significant rate increases through an ECAR surcharge that
6 would be passed on to the customers of AEPCO's Class A member distribution cooperatives,
7 Decision No. 74173 required AEPCO to provide notice of the proposed ECAR, within 30 days of
8 filing an ECAR application, to the customers of its Class A member distribution cooperatives.

9 5. On May 23, 2014, AEPCO filed a motion to extend the deadline to file proof of the
10 notice of the ECAR application.

11 6. On July 24, 2014, AEPCO filed affidavits of publication confirming that it had caused
12 notice of the ECAR Application to be published on June 20, 2014 in the *Mohave Daily News*, on July
13 21, 2014, in the *Arizona Daily Star*, and in the July 2014 issue of *Currents* magazine. The published
14 notice informed end use customers of the possibility that an ECAR surcharge mechanism would be
15 implemented at a rate of zero and subsequently increased to recover specific costs, but the notice did
16 not quantify the possible magnitude of the future surcharge.

17 7. On July 30, 2014, the Commission issued Decision No. 74600 in this docket,
18 amending Decision No. 74173 to extend the time for AEPCO to complete customer notice of its
19 ECAR Application.

20 8. No customer comments on the ECAR Application or intervention requests were filed
21 in response to the customer notice.

22 9. On September 2, 2014, AEPCO filed a Request for Procedural Order Re ECAR
23 Application. Therein, AEPCO proposed a filing schedule for processing the ECAR Application. The
24 filing indicated that due to the existence of a disputed issue between the parties, AEPCO anticipated
25 that the Hearing Division would prepare a Recommended Order for the Commission's consideration.

26 10. On September 19, 2014, a Procedural Order was issued setting filing schedule for the
27 parties.

28

1 11. On September 30, 2014, Staff filed a Memorandum and Proposed Order regarding an
2 application AEPCO filed on August 1, 2014, in compliance with Decision No. 74173, requesting
3 removal of the effects of two expiring Purchase Power Agreements ("PPAs") from its rates.

4 12. On October 17, 2014, Staff filed a Staff Report on AEPCO's ECAR Application.

5 13. On October 24, 2014, the Commission issued Decision No. 74788, authorizing
6 AEPCO to remove from its rates the effects of the two expiring PPAs, and ordering AEPCO to file
7 tariffs in conformance with the Decision.

8 14. On October 31, 2014, AEPCO filed tariffs in conformance with Decision No. 74788.

9 15. On November 13, 2014, AEPCO filed its Response to the October 17, 2014 Staff
10 Report on the ECAR Application.

11 **Description of AEPCO**

12 16. AEPCO was initially granted a Certificate of Convenience & Necessity ("CC&N") by
13 Decision No. 33677 (February 13, 1962). As part of the restructuring of AEPCO in the late 1990s
14 and early 2000s, AEPCO requested that the Commission transfer the transmission portion of
15 AEPCO's CC&N to Southwest Transmission Cooperative, Inc. ("SWTC"). The Commission granted
16 the request in Decision No. 63868 (July 25, 2001). Decision No. 74591 (July 30, 2014) transferred
17 SWTC's CC&N back to AEPCO.

18 17. AEPCO is a non-profit customer-owned cooperative serving the wholesale power
19 needs of its member distribution cooperatives, who use power supplied by AEPCO to meet the
20 electricity needs of their retail members. AEPCO's three Class A partial-requirements members are
21 Trico Electric Cooperative, Inc. ("Trico"), Mohave Electric Cooperative, Incorporated ("Mohave"),
22 and Sulphur Springs Valley Electric Cooperative, Inc. ("SSVEC") (collectively, "PRMs").
23 AEPCO's three all-requirements members are Anza Electric Cooperative, Inc. ("Anza"), Duncan
24 Valley Electric Cooperative, Inc. ("Duncan"), and Graham County Electric Cooperative Inc.
25 ("Graham") (collectively, "CARMS"). With the exception of Anza, which is located in south-central
26 California, AEPCO's member distribution cooperatives are located in rural areas of Arizona. The
27 CARMs receive all of their power and energy needs from AEPCO while each PRM only commits to
28 purchase a fixed amount of capacity from AEPCO and may secure additional power and energy from

1 other sources. AEPCO also has a Class D member, Valley Electric Association, Inc., which has a
2 service contract with AEPCO for scheduling and trading services, but takes no power from AEPCO.

3 **Decision No. 74173 and the ECAR Mechanism**

4 18. In the rate case, in response to Staff's expressed concerns regarding potential costs
5 associated with the EPA Regional Haze regulations, AEPCO proposed the concept of a surcharge
6 mechanism to provide recovery of potential costs associated with future environmental compliance
7 obligations in the form of an ECAR. Mohave and Trico were supportive of AEPCO's proposal to
8 implement an ECAR in conjunction with a revenue decrease.

9 19. In the rate case proceeding, Staff did not oppose the concept of an ECAR as a cost
10 recovery mechanism, so long as the ECAR would be used for projects that are the best long-term
11 solution for AEPCO and its members. Staff stated that a number of details remained to be addressed,
12 pointing out that the draft ECAR provided by AEPCO in the rate case lacked minimum or maximum
13 dollar amounts and specificity regarding environmental compliance obligations; did not address
14 whether the surcharge would base revenue requirements upon short- or long-term financing, or
15 simply upon ongoing operating cash requirements; did not include a formalized process and list of
16 regulatory accounts to be used for recording funds received and classification of qualified
17 environmental assets; and did not include a provision requiring that the ECAR remain subject to
18 Commission audit on an annual or bi-annual basis. Staff believed that collaborative work sessions
19 between AEPCO and Staff might be appropriate to address these technical concerns, prior to AEPCO
20 filing a revised plan of administration in this docket.

21 20. AEPCO agreed that this docket should be held open so that the parties could work
22 together to refine the process for, and details of, the ECAR so that AEPCO and Staff could bring a
23 joint recommendation to the Commission for approval of an ECAR. AEPCO proposed to make a
24 filing on or before April 30, 2014, to request an ECAR mechanism and tariff rider set at zero, for
25 Commission approval, and to continue discussions with Staff regarding ECAR details while
26 AEPCO's Apache Generating Station ("Apache Station") Study was being conducted. AEPCO
27 stated that it would work with its members to prepare an environmental compliance strategy ("ECS")
28 plan to address the Environmental Protection Agency ("EPA") regional haze requirements, based on

1 the results of the Apache Station Study, which AEPCO planned to file by June 30, 2014. AEPCO
2 stated that it then planned to file a request to reset the ECAR surcharge from zero to a rate based on
3 the detailed costs identified in the ECS. AEPCO anticipated that its proposed procedure would
4 provide sufficient time for its Best Available Retrofit Technology ("BART") alternative proposal, if
5 approved by the EPA, to be operational by December 2017.

6 21. Decision No. 74173 found that the concept of an ECAR as a cost recovery
7 mechanism, when properly designed and used for projects that are the best long-term solution for
8 AEPCO and its members, might be acceptable and reasonable. Decision No. 74173 also found that
9 while a properly designed ECAR and plan of administration might provide a means for AEPCO to
10 address future environmental compliance obligations, AEPCO had not presented a fully developed
11 ECAR that could be approved. The record in this rate case was therefore held open until April 30,
12 2014 for the purpose of allowing AEPCO to file, if it so chose, after collaboration with Staff, an
13 ECAR and plan of administration that would fully address the technical points Staff raised in regard
14 to the ECAR. Decision No. 74173 noted that while the dollar amount of costs to be recovered need
15 not be known for Commission approval of a surcharge mechanism or tariff rider in a rate case, such a
16 mechanism or rider must specifically delineate both the type (or types) of costs to be recovered, and
17 the mechanism by which they will be recovered from ratepayers.

18 22. Decision No. 74173 stated that increasing rates through an ECAR would not alleviate
19 customer concerns with potentially rising rates. Due to the possibility of significant rate increases
20 through an ECAR surcharge, AEPCO was required to provide notice of filing an ECAR Application
21 to the customers of its member distribution cooperatives, in a form acceptable to its member
22 cooperatives and Staff. As noted in Findings of Fact Nos. 6 above, AEPCO provided notice, but the
23 notice did not quantify the possible magnitude of the future surcharge. No intervention requests or
24 comments were filed in response to the notice.

25 **Description of the Proposed ECAR**

26 23. A copy of AEPCO's proposed ECAR Tariff and Plan of Administration was attached
27 to its April 30, 2014 filing. A copy of the proposed ECAR Tariff is attached hereto and incorporated
28

1 herein by reference as Exhibit A. A copy of the proposed ECAR Plan of Administration is attached
2 hereto and incorporated herein by reference as Exhibit B.

3 24. The ECAR proposed by AEPCO is a monthly surcharge intended to provide recovery
4 of potential costs associated with future EPA Regional Haze environmental compliance requirements
5 for AEPCO's two coal-fired units at AEPCO's Apache Station, and also any other potential
6 obligations mandated by federal, state and/or local environmental regulations. The proposed ECAR
7 Tariff would apply to all of AEPCO's Class A member distribution cooperatives.

8 25. The ECAR Application requests approval of the ECAR Tariff with the rate set at zero.
9 Once the ECAR Application is approved in this proceeding, AEPCO plans to submit another
10 application, along with an ECS plan, requesting that the ECAR be set at a level to recover Qualified
11 ECS Costs.¹ The ECS plan would include the scope of work, anticipated timelines, and specific cost
12 estimates for Qualified Environmental Compliance Projects ("QECP") that AEPCO plans to
13 implement in order to comply with mandated environmental regulations. The ECAR Plan of
14 Administration provides that Commission-approved costs associated with any QECP, as identified in
15 an ECS plan, are Qualified ECS Costs.

16 26. The proposed ECAR Tariff and Plan of Administration require AEPCO to submit any
17 proposed change to the ECAR rate, along with an ECS plan, to AEPCO's Board of Directors and
18 AEPCO's Class A member distribution cooperatives for approval of the Board and unanimous
19 consent of the Class A member distribution cooperatives prior to submission for Commission
20 approval.² Increases to the ECAR are to be based on Qualified ECS Costs.³

21 27. The proposed ECAR Plan of Administration provides that an approved increase to the
22 ECAR will be apportioned to each member distribution cooperative based on the member's Allocated
23 Capacity Percentage ("ACP"). The monthly dollar amount to be collected from each CARM would
24 be based on its monthly demand ratio share, calculated each month as the percentage of the CARM's
25

26 ¹ Qualified ECS Costs are defined in the ECAR Plan of Administration, Exhibit B at 1-2, and do not include
27 environmental fines or penalties, or any costs already recovered through established rate tariffs or any other Commission-
approved adjustor mechanism.

28 ² Proposed ECAR Tariff, Exhibit A at 2; Proposed ECAR Plan of Administration, Exhibit B at 4.

³ Proposed ECAR Plan of Administration, Exhibit B at 1-2.

12-month rolling average demand to the total of the CARMs' 12-month rolling average demand, and AEPCO would determine the term of collection for the costs.⁴

28. The proposed ECAR Plan of Administration specifies, by Rural Utilities Service ("RUS") account, the capital addition costs and other costs eligible for recovery through the ECAR, if approved by the Commission.⁵

29. The funds collected through the ECAR would be deposited into an interest bearing investment account ("ECAR Surcharge Account"). The funds would be used only for Qualified Environmental Compliance Projects in an approved ECS plan, and would be recorded as contributions in aid of construction. The proposed Plan of Administration provides that upon completion or termination of an ECS plan, all remaining funds in the ECAR Surcharge Account, including interest earned, would be refunded to members within 90 days, using the same method for collecting the ECAR surcharge, returning the ECAR rate to zero.⁶

30. The proposed ECAR Plan of Administration provides that the level of funding and ECAR rate may be adjusted up or down upon the filing of a request and Commission approval. AEPCO would file a request for changing the ECS and the ECAR Tariff, and after a 60 day review period, the new rate would become effective without further Commission action, unless the Commission elects to suspend the revised ECAR Tariff, in which case it would become effective only upon Commission approval.⁷

31. Compliance reporting is required by the proposed ECAR Plan of Administration, on September 1, for the prior January through June period, and on March 1, for the prior July through December period.⁸

Staff Recommendations on the ECAR Application

32. The Staff Report states that Staff and AEPCO came to agreement on the proposed ECAR Tariff and Plan of Administration with the exception of one issue.

⁴ Proposed ECAR Tariff, Exhibit A at 1; Proposed ECAR Plan of Administration, Exhibit B at 2.

⁵ Proposed ECAR Plan of Administration, Exhibit B at 2-3. The ECAR Plan of Administration also provides that the list may be expanded to include other accounts approved by the Commission in the future.

⁶ Proposed ECAR Plan of Administration, Exhibit B at 3, 4.

⁷ Proposed ECAR Tariff at 1-2, Exhibit A at 1-2; Proposed ECAR Plan of Administration, Exhibit B at 4.

⁸ Proposed ECAR Plan of Administration, Exhibit B at 3-4.

1 33. Staff recommends approval of the proposed ECAR surcharge mechanism, but against
2 recovery of chemical expenses through the ECAR surcharge, as AEPCO requests.⁹ Staff states that
3 AEPCO proposes to recover the costs for chemical expenses associated with the installation of the
4 Selected Non-Catalytic Reduction ("SNCR") retrofit and the employment of an activated carbon
5 injection system that would reduce NOx and mercury emissions, respectively, through the ECAR
6 surcharge. Staff does not believe these expenses should be recovered via the surcharge. Staff points
7 out that no other utility has Commission approval to recover such costs through their environmental
8 surcharges. Staff therefore recommends that AEPCO be required to file a revised ECAR Plan of
9 Administration removing the reference to RUS Account 502 - Steam Expenses, as a compliance item,
10 within 15 days of a Decision in this matter.

11 34. Staff further recommends that upon completion/termination of an ECS Plan, after any
12 remaining funds have been refunded to the distribution cooperative members, and the ECAR rate is
13 returned to zero, AEPCO should be required to file the revised ECAR Tariff reflecting the zero rate,
14 as a compliance item to the Decision approving the corresponding ECAR Tariff, within 30 days of
15 the surcharge rates going to zero.

16 **AEPCO's Response to Staff's Recommendations**

17 35. AEPCO does not object to Staff's recommendation regarding the filing of a revised
18 ECAR Tariff reflecting a zero rate after the distribution of remaining funds to its members.

19 36. AEPCO objects to Staff's recommendation to remove the reference in the proposed
20 ECAR Plan of Administration to RUS Account 502 - Steam Expenses, which lists ongoing chemical
21 expenses as eligible for recovery through the ECAR. AEPCO contends that the most immediate
22 environmental compliance obligation faced by AEPCO is its ability to fund both capital and
23 operating expenses necessary to maintain the viability of its Apache Station. AEPCO argues that a
24 key element of AEPCO's compliance plan involves the use of chemicals such as urea and activated
25 carbon, the costs of which it claims are both highly volatile. AEPCO argues that unless it is allowed
26 to recover these chemical costs through the ECAR, AEPCO will experience dramatic negative

27 ⁹ Under AEPCO's proposed ECAR Plan of Administration, chemical expense costs would be recorded in RUS account
28 502-Steam Expenses, which is listed as a Qualified RUS Account in the proposed ECAR Plan of Administration, Exhibit
B at 4.

1 impacts on its available working capital, while also arguing that AEPCO's members will lose the rate
2 stability, gradualism, and reduced rate case frequency benefits of the proposed ECAR if such
3 expenses are not recovered via the ECAR.

4 37. AEPCO argues that its chemical cost recovery request is limited to a narrowly
5 defined category of expenses, booked to RUS Account 502 for "chemical expenses incurred solely
6 due to Environmental Regulations(s) but not including any indirect expenses such as overhead."¹⁰
7 AEPCO contends that such chemical costs should qualify for recovery through an adjustor
8 mechanism because the need to incur the expense is not within AEPCO's control, and because the
9 cost is considerable, ongoing, and volatile. AEPCO disagrees with Staff's rationale for opposing the
10 inclusion of chemical costs in the ECAR, stating that Staff did not explain why other utilities'
11 environmental surcharge mechanisms include no chemical expense cost recovery, or why the same
12 rationale should apply to AEPCO's request.

13 38. AEPCO maintains that because the proposed ECAR requires Commission approval of
14 the ECS before any surcharge can be applied to bills, Commission oversight over the ECAR is
15 greater than Commission oversight over environmental surcharge adjustors approved for Arizona
16 Public Service Company ("APS") and Tucson Electric Power Company ("TEP"). AEPCO asserts
17 that TEP has received approval to recover Account 502 costs for lime through its purchased power
18 and fuel adjustment clause ("PPFAC"). AEPCO argues that Commission approval of the ECAR Plan
19 of Administration does not mean the chemical costs will automatically be recovered, but that the
20 Commission will have the opportunity to review and evaluate the specific costs included in the ECS
21 and determine, based on details of the plan, the appropriateness of allowing recovery through the
22 ECAR.

23 **Conclusion**

24 39. We agree with AEPCO and Staff that under the special circumstances of this case, it is
25 appropriate to establish an ECAR mechanism for the necessary and prudent capital costs AEPCO
26 must incur to achieve compliance with future EPA Regional Haze environmental compliance
27

28 ¹⁰ ECAR Plan of Administration, Exhibit B at 3, lines 1-4.

1 requirements for AEPCO's two coal-fired units at AEPCO's Apache Station, and also any other
2 potential obligations mandated by federal, state and/or local environmental regulations. While the
3 exact amount of the capital costs are unknown at this time, the nature of the one-time capital costs
4 expenditures necessary for AEPCO to achieve compliance with environmental regulations, coupled
5 with the fact that AEPCO is a cooperative utility, justify the implementation of the extraordinary rate
6 making mechanism AEPCO requests.

7 40. AEPCO and Staff did not reach agreement on the issue of whether it is appropriate for
8 AEPCO to recover ongoing expenses for chemicals associated with environmental compliance
9 requirements from ratepayers via the ECAR surcharge. In its Response to the Staff Report, AEPCO
10 argues that the costs are considerable, ongoing, and volatile, and that failure to include them in an
11 ECAR will have "dramatic negative impacts" on AEPCO's available working capital. Staff does not
12 believe these costs should be recovered via the surcharge. A determination on this contested issue
13 requires a balancing of the interests of AEPCO and the end-use customers, the ratepayers, who will
14 pay the ECAR surcharge on their bills.¹¹ AEPCO requested that this contested issue be resolved
15 without a hearing, and did not present a case including evidence as to the level of expense AEPCO
16 proposes to recover through the surcharge, or the propriety of recovering such ongoing expenses
17 through a surcharge mechanism rather than through base rates.¹²

18 41. If the proposed ECAR Plan of Administration were adopted as it appears in Exhibit B
19 (making chemical expenses eligible for surcharge recovery), the Commission's ability to exclude
20 such expenses from surcharge recovery would be limited. Based on the lack of evidence available on
21 this issue at this time, and its unknown rate impacts, we do not find this acceptable. The incentives
22 and economics of expense recovery through a surcharge mechanism are not the same as for expense

23
24 ¹¹ As previously noted, while the ratepayers were provided notice of the possible implementation of an ECAR surcharge
25 mechanism set at zero, and future increases to recover specific costs, the notice gave no indication of the magnitude of
such future costs.

26 ¹² AEPCO attached to its November 13, 2014 Response to the Staff Report two exhibits purporting to support its
27 contention that the costs of the chemicals urea and activated carbon are volatile. These exhibits do not constitute
evidence on the contested issue of whether chemical costs should be eligible for recovery through the ECAR surcharge.
28 At the request of the parties, no additional hearing was scheduled on the ECAR Application, and the exhibits attached to
AEPCO's Response have not been sponsored by a witness, offered as evidence, or subjected to cross-examination. For
this reason we cannot determine at this time whether the cost of the chemicals is volatile or not, or even whether they are
necessary for AEPCO's compliance with environmental regulations.

1 recovery through normal ratemaking procedures. Automatic flow through of an unknown level of
2 expenses, while unquestionably of benefit to a utility, may not be of benefit to the ratepayers who pay
3 a surcharge. The burden to ratepayers of paying for ongoing chemical expenses via a surcharge
4 requires serious consideration with a full presentation of the necessary facts and appropriate
5 recommendations.¹³ Those facts and recommendations are not before us at this time, and we
6 therefore adopt Staff's recommendation.¹⁴

7 42. AEPCO does not disagree with Staff's recommendation that AEPCO should be
8 required to file, as a compliance item to any future Decision approving an ECAR Tariff, a revised
9 ECAR Tariff reflecting the zero surcharge rate that will result from completion/termination of an
10 ECS plan and any remaining funds having subsequently been refunded to the distribution cooperative
11 members pursuant to the proposed ECAR Plan of Administration. Staff's recommendation should be
12 adopted.

13 43. AEPCO should be required to file an ECAR Tariff and Plan of Administration
14 conforming to the Commission approval herein within 15 days of this Decision. We will direct
15 AEPCO to modify the proposed ECAR Tariff and Plan of Administration to remove the reference to
16 Steam Power Generation Operations and RUS Account 502 - Steam Expenses, and to include
17 additional language reflecting Staff's recommendation regarding future compliance filings in its
18 ECAR Tariff and Plan of Administration filed in conformance with this Decision.

19 CONCLUSIONS OF LAW

20 1. AEPCO is a public service corporation within the meaning of Article XV of the
21 Arizona Constitution and A.R.S. §§ 40-250 and 40-251.

22 2. The Commission has jurisdiction over AEPCO and the subject matter of the
23 application.

24 3. Notice of the application was given in accordance with law.

25 ¹³ The Commission has approved other adjustor mechanisms that include limitations and parameters, such as limits
26 related to timing and amounts or balances.

27 ¹⁴ AEPCO always has the ability to file a rate case when it experiences a significant change in expenses affecting its
28 operations. We note that the proposed ECAR Plan of Administration provides that the list of Qualified RUS Accounts
may be expanded to include other accounts approved by the Commission in the future, and we do not make a finding in
this proceeding whether the future addition of certain capital costs or expenses, about which more is known, may be
appropriate.

4. It is just and reasonable and in the public interest to approve AEPCO's proposed ECAR Tariff, set at zero, as it appears in Exhibit A.

5. It is just and reasonable and in the public interest to approve AEPCO's proposed ECAR Plan of Administration as it appears in Exhibit B, with the modifications ordered herein.

ORDER

IT IS THEREFORE ORDERED that Arizona Electric Power Cooperative, Inc.'s proposed ECAR Tariff as it appears in Exhibit A, set at zero, is hereby approved.

IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc.'s proposed ECAR Plan of Administration as it appears in Exhibit B, with the modifications ordered in the Ordering Paragraphs below, is hereby approved.

IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. shall modify the proposed Environmental Compliance Adjustment Rider Plan of Administration as it appears in Exhibit B to remove the reference to Steam Power Generation Operations and RUS Account 502 - Steam Expenses.

IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. shall modify the proposed Environmental Compliance Adjustment Rider Plan of Administration as it appears in Exhibit B to include the following language inserted at page 4, line 24, after “zero”: “within 30 days of the refund to Members, as a compliance item to Decision No. xxxxx.”

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IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. shall file, within 15 days of this Decision, as a compliance item in this matter, a proposed Environmental Compliance Adjustment Rider Tariff and Plan of Administration conforming to the approvals herein.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____ 2015.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

TJ:ru

1 SERVICE LIST FOR:

ARIZONA ELECTRIC POWER COOPERATIVE, INC.

2 DOCKET NO.:

E-01773A-12-0305

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EXHIBIT A

DECISION NO. _____

ARIZONA ELECTRIC POWER COOPERATIVE, INC.

ENVIRONMENTAL COMPLIANCE ADJUSTMENT RIDER (ECAR)

TARIFF

Effective Date: May XX, 2014

PURPOSE

The purpose of the Environmental Compliance Adjustment Rider ("ECAR") is to provide a revenue recovery mechanism that will create a fund to be used for the purpose of meeting environmental compliance obligations mandated by federal, state, or local laws or regulations. The ECAR is the tariff collection mechanism for the overall Environmental Compliance Strategy ("ECS") developed by Arizona Electric Power Cooperative, Inc. ("AEPCO" or "Company") and its Members.

APPLICABILITY

Applicable to all Class A Member Distribution Cooperatives of AEPCO.

TERMS AND CONDITIONS

1. The initial rate of the tariff shall be set at zero. AEPCO will calculate the monthly dollar amount to be collected from each Class A Member Distribution Cooperative through the ECAR. AEPCO will allocate a portion of these costs to each Class A Member Distribution Cooperative based on the Allocated Capacity Percentage ("ACP") of each Member. The monthly dollar amount to be collected from each individual Collective All-Requirements Member ("CARM") will be based upon each CARM's monthly Demand Ratio Share. The Demand Ratio Share is calculated each month as the percentage of each CARMs' 12-month rolling average demand to the total of the CARMs' 12-month rolling average demand. AEPCO will also determine the term of collection for the costs. Once the monthly dollar amount for the fund and the term of collection have been established, AEPCO will file the ECS plan and a revised tariff with the Arizona Corporation Commission ("ACC" or "Commission"), for Commission approval.* Once the revised tariff is effective, each Member will be assessed a monthly charge on its bill in addition to other rates and charges approved by the Commission. Exhibit A sets forth the monthly Member charges and anticipated term of collection.
2. The level of funding and ECAR rates may be adjusted (up or down) depending on the actual environmental compliance funding needs of the Company as outlined in the ECS plan. Any changes to the ECS and ECAR tariff after the initial ECS plan is approved will be subject to a sixty (60) day ACC Staff review period.* The revised tariff shall become

effective at the end of the sixty (60) day period unless the Commission elects to suspend the revised tariff, in which case it shall become effective upon Commission approval.

Details of the operation of the ECAR and ACC compliance requirements are as set forth in the Company's Plan of Administration.

*In order for the ECAR to be revised, AEPCO must obtain Board approval and the unanimous consent of its Class A Member Distribution Cooperatives, prior to being submitted to the Commission.

EXHIBIT A

The Monthly Charge shall be as follows for each of the Company's Class A Member Distribution Cooperatives:

May XX, 2014*

Collective All-Requirements Members:

Anza Electric Cooperative, Inc.	\$0.00/mo.
Duncan Valley Electric Cooperative, Inc.	\$0.00/mo.
Graham County Electric Cooperative, Inc.	\$0.00/mo.

Partial Requirements Members:

Mohave Electric Cooperative, Inc.	\$0.00/mo.
Sulphur Springs Valley Electric Cooperative, Inc.	\$0.00/mo.
Trico Electric Cooperative, Inc.	\$0.00/mo.

*The stated Monthly Rate applies to service provided on and after this date.

EXHIBIT B

DECISION NO. _____

Arizona Electric Power Cooperative, Inc.

Environmental Compliance Adjustment Rider

Plan of Administration

ECAR – Plan of Administration

General Description:

The purpose of the Environmental Compliance Adjustment Rider ("ECAR") Surcharge is to establish a fund to be used for the purpose of meeting, in whole or in part, the cost of environmental compliance obligations imposed on or applicable to the Arizona Electric Power Cooperative, Inc. ("AEP") that are mandated by federal, state or local laws or regulations or judicial or regulatory agency interpretations of such laws or regulations ("Environmental Regulations"). The ECAR provides for the recovery of capital addition costs and any other costs specified in the Environmental Compliance Strategy, as approved by the Commission. The ECAR is not intended to recover any costs already recovered in base rates approved in Decision No. 74173 or any subsequent rate case decision or recovered through any other Commission-approved adjustor mechanism.

Key Definitions:

1. ECAR Surcharge – A rate rider approved by the Arizona Corporation Commission ("ACC" or "Commission") in Decision No. XXXXX which authorizes AEP to: recover or mitigate Environmental Regulations operations' costs; or fund, in whole or in part, capital additions required by Environmental Regulations.
2. Environmental Compliance Strategy ("ECS") – A formal plan developed by AEP to meet Environmental Regulations. The ECS shall include, at a minimum, a scope of work, anticipated timelines and cost estimates.
3. Qualified Environmental Compliance Projects – Projects, as specified in the ECS plan, implemented in order to comply with standards mandated by Environmental Regulations. These standards include, but are not limited to, restrictions of carbon dioxide (CO₂), nitrogen oxide (NO_x), sulfur oxide (SO_x), ozone, particulate matter (PM), volatile organic compounds (VOC), mercury (Hg), and other toxins, coal ash and other requirements.
4. Qualified ECS Costs – The costs associated with Qualified Environmental Compliance Projects as identified in the ECS plan and approved by the Commission as appropriate for recovery through the ECAR Surcharge pursuant to ACC review of the ECS plan. The Qualified ECS Costs must be classified in one or more of the Rural Utilities Service ("RUS") accounts, or any other successor RUS account, listed below under Qualified RUS Accounts. Any costs already recovered in base rates approved in Decision No. 74173 or any subsequent rate case decision or recovered through any other Commission-approved adjustor mechanism are not Qualified ECS Costs

and are not recoverable through the ECAR. Environmental fines or penalties do not qualify for cost recovery through the ECAR Surcharge nor do costs that have been included as part of AEPCO's authorized cost of service for recovery through established rate tariffs.

Calculation of ECAR:

Based on costs detailed in the ECS, AEPCO will calculate the monthly dollar amount to be collected from each Class A Member Distribution Cooperative through the ECAR. AEPCO will allocate a portion of these costs to each Class A Member Distribution Cooperative based on the Allocated Capacity Percentage ("ACP") of each Member. The monthly dollar amount to be collected from each individual Collective All-Requirements Member ("CARM") will be based upon each CARM's monthly Demand Ratio Share. The Demand Ratio Share is calculated each month as the percentage of each CARMs' 12-month rolling average demand to the total of the CARMs' 12-month rolling average demand. AEPCO will also determine the term of collection for the costs.

Qualified RUS Accounts:

The costs classified in the following RUS accounts are eligible to be recovered through the ECAR. This list may be expanded to include other accounts approved by the Commission in the future.

Steam Production Plant

- 310 Land and Land Rights
- 311 Structures and Improvements
- 312 Boiler Plant Equipment
- 313 Engines and Engine Driven Generators
- 314 Turbogenerator Units
- 315 Accessory Electric Equipment
- 316 Miscellaneous Power Plant Equipment

Other Production Plant

- 340 Land and Land Rights
- 341 Structures and Improvements
- 342 Fuel Holders, Producers, and Accessories
- 343 Prime Movers
- 344 Generators
- 345 Accessory Electric Equipment
- 346 Miscellaneous Power Plant Equipment

1 ***Steam Power Generation Operations***

- 2 • 502 Steam Expenses (limited to chemical expenses incurred solely due to
3 Environmental Regulation(s) but not including any indirect expenses such as
4 overhead)

5
6 **Accounting:**

7 Funds collected from the ECAR Surcharge will be separately identified by AEPCO and
8 recorded as a regulatory liability. Accounting for these funds shall be done on a
9 contributing Member Distribution Cooperative basis. Use of these funds to meet
10 Qualified ECS Costs will reduce that regulatory liability on a dollar-for-dollar basis.
11 Funds used for qualified environmental capital additions will be recorded as contributions
12 in aid of construction.

13 **Investment Administration:**

14 AEPCO will deposit all funds collected through the ECAR Surcharge in a separate
15 interest bearing investment account ("ECAR Surcharge Account") and may only draw
16 monies from the account to fund Qualified ECS Costs. Interest earned on the investment
17 of these funds shall be retained in the account. Upon completion or termination of the
18 ECS plan, all remaining funds in the ECAR Surcharge Account, including interest
19 earned, will be refunded to Members within ninety (90) days, returning the rates to zero,
20 using the same method established for the collection of the ECAR (see Calculation of
21 ECAR above).

22 **Compliance Reports:**

23 On September 1 for the previous January through June period and March 1 for the prior
24 year July to December period of each year, AEPCO will file semi-annual reports
25 concerning the ECAR Surcharge with the Commission, with a copy to its Members,
26 containing the following information for the reporting period:

- 27 1. The beginning balance of the ECAR Surcharge Account.
28 2. The amount collected from each Class A Member through the ECAR Surcharge,
29 including the total amount collected.
30 3. The total amount of interest earned by the ECAR Surcharge Account.
31 4. The total withdrawals for Qualified ECS Costs.
32 5. The ending balance of the ECAR Surcharge Account.

33 AEPCO will also file the following supporting information with the semi-annual report:

- 34 1. A listing of the dates and amounts of withdrawals.

1 2. A description of each Qualified ECS Cost paid during the period and the
2 accounting for each cost.

3 Each report will be certified by AEPCO's Chief Executive Officer or Chief Financial
4 Officer that all information provided in the filing is true and accurate to the best of his or
5 her information and belief. No compliance reports shall be required until after an ECS
6 plan is approved by the Commission. Once an ECS plan is completed or terminated and
7 any remaining funds have been refunded to Members and ECAR rates have been returned
8 to zero, AEPCO shall not be required to file compliance reports until the next ECS plan is
9 approved by the Commission.

10 **ECS and ECAR Surcharge Modifications:**

11 Pursuant to Decision No. XXXXX, the initial ECAR rate shall be set at \$0.00.
12 Thereafter, in response to an Environmental Regulation, AEPCO shall file its initial ECS
13 plan and a revised ECAR tariff with Docket Control for Commission approval.

14 The level of funding and ECAR rates may be adjusted (up or down) depending on the
15 actual environmental compliance funding needs of the Company as outlined in the ECS
16 plan. Any changes to the ECS and ECAR tariff after the initial ECS plan is approved will
17 be subject to a sixty (60) day ACC Staff review period. The revised tariff shall become
18 effective at the end of the sixty (60) day period unless the Commission elects to suspend
19 the revised tariff, in which case it shall become effective upon Commission approval.

20 Upon completion or termination of the ECS plan, all remaining funds in the ECAR
21 Surcharge Account not needed to meet the Company's objective(s) for the ECS plan,
22 including interest earned, will be refunded to Members within ninety (90) days, returning
23 the rates to zero, using the same method established for the collection of the ECAR.
24 AEPCO will file a revised tariff returning the rates to zero. The rates shall remain at zero
25 until AEPCO deems it necessary to utilize the ECAR tariff again in response to an
26 Environmental Regulation, in which case it will prepare and file an initial ECS plan and
27 initial revised tariff for Commission approval.

28 **AEPCO Board Approval and Member Consent:**

29 Prior to filing an initial ECS plan and revised ECAR tariff or seeking a subsequent
30 modification to either the ECS or ECAR, AEPCO will obtain authorization from its
31 Board. AEPCO shall also notify its Member Distribution Cooperatives sixty (60) days
32 in advance of a proposed filing with the Commission in order to confirm the unanimous
33 consent of its Members. Absent receipt of timely written objections, Member consent
34 shall be deemed obtained and AEPCO may proceed with the filing.